



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 3, 2002

H.R. 4546

Bob Stump National Defense Authorization Act for Fiscal Year 2003

*As ordered reported by the House Committee on Armed Services
on May 1, 2002*

SUMMARY

H.R. 4546 would authorize appropriations totaling \$382 billion for fiscal year 2003 and an estimated \$14 billion in additional funding for 2002 for the military functions of the Department of Defense (DoD) and the Department of Energy. It also would prescribe personnel strengths for each active-duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts for 2002 and 2003 would result in additional outlays of \$392 billion over the 2002-2007 period.

The bill also contains provisions that would raise the costs of discretionary defense programs over the 2004-2007 period. CBO estimates that those provisions would require appropriations of \$7.0 billion over those four years.

The bill contains provisions that would increase direct spending by an estimated \$5.8 billion over the 2003-2007 period and \$17.7 billion over the 2003-2012 period, primarily from the phase-in of concurrent payment of retirement annuities with veterans' disability compensation to retirees from the military and the other uniformed services who have service-connected disabilities rated at 60 percent or greater. Because it would affect direct spending, the bill would be subject to pay-as-you-go procedures.

H.R. 4546 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4546 is shown in Table 1. Most of the costs of this legislation fall within budget function 050 (national defense).

TABLE 1. BUDGETARY IMPACT OF H.R. 4546, THE BOB STUMP NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2003

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Defense Programs						
Budget Authority ^a	346,285	0	0	0	0	0
Estimated Outlays	346,878	116,344	38,941	13,273	5,536	2,724
Proposed Changes						
Authorizations of Supplemental Appropriations for 2002						
Estimated Authorization Level ^b	14,048	0	0	0	0	0
Estimated Outlays ^b	5,345	5,782	1,941	660	174	79
Authorization of Appropriations for 2003						
Estimated Authorization Level	0	381,522	0	0	0	0
Estimated Outlays	0	252,982	86,639	27,346	7,944	2,726
Spending Under H.R. 4546 for Defense Programs						
Estimated Authorization Level ^a	360,333	381,522	0	0	0	0
Estimated Outlays	352,223	375,108	127,521	41,279	13,654	5,529
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	509	637	1,021	1,599	1,997
Estimated Outlays	0	509	637	1,021	1,599	1,997

NOTE: This table excludes estimated authorizations of appropriations for years after 2003. (Those additional authorizations are shown in Table 3.)

a. The 2002 level is the amount appropriated for programs authorized by the bill.

b. The estimates shown for the 2002 supplemental are amounts contained in the Administration's supplemental request for defense programs. The outlay estimate for 2003 includes \$5,684 million of spending from funds requested as emergency appropriations. Excluding emergency spending would lower total outlays in 2003 to \$369,424 million.

BASIS OF ESTIMATE

Spending Subject to Appropriation

The bill would specifically authorize appropriations totaling \$381.4 billion in 2003 (see Table 2) and additional amounts as may be necessary for supplemental appropriations for defense in 2002, which CBO estimates would total \$14 billion based on the Administration's request.¹ Most of those costs would fall within budget function 050 (national defense). H.R. 4546 also would specifically authorize appropriations of \$113 million for the Maritime Administration (function 400—transportation), \$70 million for the Armed Forces Retirement Home (function 600—income security), and \$21 million for the Naval Petroleum Reserves (function 270—energy).²

The estimate assumes that the estimated authorization amount for 2002 is appropriated by the end of June 2002, and that the amounts authorized for 2003 will be appropriated before the start of fiscal year 2003. Outlays are estimated based on historical spending patterns.

The bill also contains provisions that would affect various costs, mostly for personnel, that would be covered by the fiscal year 2003 authorization and by authorizations in future years. Table 3 contains estimates of those amounts. In addition to the costs covered by the authorizations in the bill for 2003, these provisions would raise estimated costs by \$7.0 billion over the 2004-2007 period. The following sections describe the provisions identified in Table 3 and provide information about CBO's cost estimates for those provisions.

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1. After adding the \$92 million estimated authorization for the Coast Guard Reserve, the bill would authorize appropriations of slightly more than \$381.5 million for 2003.
 2. The authorization shown here for the Maritime Administration does not include any amounts for maritime loan guarantees and related administrative costs because they are already authorized under existing law.

TABLE 2. SPECIFIC AUTHORIZATIONS IN H.R. 4546

Category	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Military Personnel					
Authorization Level ^a	93,670	0	0	0	0
Estimated Outlays	88,612	4,402	281	94	0
Operation and Maintenance					
Authorization Level	130,159	0	0	0	0
Estimated Outlays	96,425	26,006	5,538	1,186	378
Procurement					
Authorization Level	73,160	0	0	0	0
Estimated Outlays	20,860	27,671	15,218	5,170	1,789
Research, Development, Test, and Evaluation					
Authorization Level	56,424	0	0	0	0
Estimated Outlays	31,792	20,381	3,286	591	151
Military Construction and Family Housing					
Authorization Level	9,954	0	0	0	0
Estimated Outlays	2,687	3,718	2,192	793	324
Atomic Energy Defense Activities					
Authorization Level	15,420	0	0	0	0
Estimated Outlays	10,369	4,094	826	74	55
Other Accounts					
Authorization Level	2,643	0	0	0	0
Estimated Outlays	1,874	418	125	96	49
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	280	-60	-120	-60	-20
Total					
Authorization Level ^b	381,430	0	0	0	0
Estimated Outlays	252,899	86,630	27,346	7,944	2,726

a. This authorization is for discretionary appropriations and does not include \$55 million for mandatory payments from appropriations for military personnel.

b. These amounts comprise nearly all of the proposed changes for authorizations of appropriations for 2003 shown in Table 1; they do not include the estimated authorization of \$92 million for the Coast Guard Reserve, which is shown in Table 3.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 4546

Category	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
MULTIYEAR PROCUREMENT					
Virginia Class Submarine	-37	-54	-60	-73	-93
C-130J Aircraft	15	-63	-121	-142	-162
FORCE STRUCTURE					
DoD Military Endstrengths	528	1,089	1,122	1,155	1,191
Coast Guard Reserve Endstrengths	92	0	0	0	0
COMPENSATION AND BENEFITS (DoD)					
Military Pay Raises	276	381	398	415	430
Expiring Bonuses and Allowances	706	796	417	234	152
Education and Training	3	6	9	13	10
DEFENSE HEALTH PROGRAM					
TRICARE Prime Remote	12	10	9	8	8
Transitional Health Care	7	5	3	2	1
OTHER PROVISIONS					
National Guard Challenge Program	16	16	17	17	18
Asbestos Payments	-110	-110	-110	-110	-110
Federal Employees Health Benefits Program	0	2	3	3	3
School Impact Aid	0	0	0	14	14
Military Housing Privatization Initiative	0	0	80	80	80
TOTAL ESTIMATED AUTHORIZATIONS					
Estimated Authorization Level	1,508	2,078	1,767	1,616	1,542

NOTE: For every item in this table except the authorization for the Coast Guard, the 2003 levels are included in the amounts specifically authorized to be appropriated in the bill. Those amounts are shown in Table 2. Amounts shown in this table for 2004 through 2007 are not included in Table 1.

Multiyear Procurement. In most cases, purchases of weapon systems are authorized annually, and as a result, DoD negotiates a separate contract for each annual purchase. In a small number of cases, the law permits multiyear procurement; that is, it allows DoD to enter into a contract to buy specified annual quantities of a system for up to five years. In those cases, DoD can negotiate lower prices because its commitment to purchase the weapons gives the contractor an incentive to find more economical ways to manufacture the weapon, including cost-saving investments. Annual funding is provided for these multiyear contracts, but potential termination costs are covered by an initial appropriation.

Section 111 would authorize the Secretary of the Navy to enter into a multiyear contract for procurement of Virginia class submarines starting in fiscal year 2003. This authority would be conditional on the prime contractor for the Virginia class submarine program entering into a binding agreement with the U.S. government to expend from its own funds an amount not less than \$385 million for nuclear and non-nuclear components purchased in economic quantities.

Based on information provided by the Navy, CBO assumes that the Navy would buy five Virginia class submarines over the 2003-2007 period if this agreement can be reached. CBO estimates that savings from buying these submarines under a multiyear contract would total \$317 million, or just over \$60 million a submarine, over the 2003-2007 period. CBO estimates that funding requirements to purchase these submarines, as well as funding the advance purchase of components for future boats, would total about \$13 billion over the 2003-2007 period (instead of the more than \$13.3 billion that would be needed under annual contracts).

Section 121 would authorize the Secretary of the Air Force to enter into a multiyear contract to purchase C-130J aircraft beginning in 2003 after the Secretary of Defense certifies that two variants of the C-130J—the CC-130J airlift aircraft and the KC-130J tanker aircraft—are operationally effective and suitable. The Secretary of Defense also must certify that this multiyear contract will result in substantial savings relative to the cost of annual contracts, that requirements for the system and the design of the system are stable, and that the program is fully funded in the department's plans for subsequent outyear budgets. Based on information provided by the Air Force, CBO assumes that DoD will procure 64 aircraft over the 2003-2008 period—40 CC-130J aircraft for the Air Force and 24 KC-130J aircraft for the Marine Corps. CBO also assumes that the CC-130J and KC-130J aircraft would be purchased under one contract administered by the Air Force and covering six years of production beginning in 2003. CBO estimates that savings from buying these aircraft under a multiyear contract would total \$473 million, or about \$95 million a year, over the 2003-2007 period. CBO also estimates that additional savings of \$182 million would accrue in 2008. Funding requirements to purchase these aircraft would total just under \$3.4 billion

over the 2003-2007 period (instead of the almost \$3.9 billion that would be needed under annual contracts).

Multiyear procurement of C-130Js would raise costs in 2003 because the KC-130J did not receive advance procurement in 2002 in anticipation of multiyear procurement starting in 2003, and because the Air Force would need to provide advance procurement for the aircraft that it would purchase in 2004.

Military Endstrength. The bill would authorize active and reserve endstrength levels for 2003 and would increase the minimum endstrength authorization in permanent law. The authorized endstrengths for active-duty personnel and personnel in the selected reserve would total about 1,400,000 and 865,000, respectively. Of those selected reservists, about 69,000 would serve on active duty in support of the reserves. The bill would specifically authorize appropriations of \$93.7 billion for the discretionary costs of military pay and allowances in 2003. The authorized endstrength represents a net increase of 12,552 servicemembers that would boost costs for salaries and other expenses by \$528 million in the first year and about \$1.1 billion annually in subsequent years, compared to the authorized strengths for 2002.

The bill also would authorize an endstrength of 9,000 in 2003 for the Coast Guard Reserve. This authorization would cost about \$92 million and would fall under budget function 400 (transportation).

Section 403 would allow the service secretaries to increase endstrength by 1 percent above the level authorized by the Congress. Under current law, only the Secretary of Defense has this authority. While there is the potential for increased costs, the service secretaries would still have to manage their resources given the finite amount of money appropriated each year for military personnel. As such, CBO estimates that this provision would not significantly increase costs.

Compensation and Benefits. H.R. 4546 contains several provisions that would affect military compensation and benefits for uniformed personnel.

Military Pay Raises. Section 601 would raise basic pay by 4.1 percent across-the-board and authorize additional targeted pay raises, ranging from 0.9 percent to 4.4 percent, for individuals with specific ranks and years of service at a total cost of about \$2.3 billion in 2003. Because the pay raises would be above those projected under current law, CBO estimates that the incremental costs associated with the larger pay raise would be about \$276 million in 2003 and total \$1.9 billion over the 2003-2007 period.

Expiring Bonuses and Allowances. Several sections would extend DoD's authority to pay certain bonuses and allowances to current personnel. Under current law, most of these authorities are scheduled to expire in December 2002, or three months into fiscal year 2003. The bill would extend these authorities through December 2003. Based on data provided by DoD, CBO estimates that the costs of these extensions would be as follows:

- Payment of reenlistment bonuses for active-duty personnel would cost \$327 million in 2003 and \$191 million in 2004; enlistment bonuses for active-duty personnel would cost \$133 million in 2003 and \$361 million in 2004;
- Various bonuses for the Selected and Ready Reserve would cost \$99 million in 2003 and \$114 million in 2004;
- Special payments for aviators and nuclear-qualified personnel would cost \$67 million in 2003 and \$72 million in 2004;
- Retention bonuses for officers and enlisted members with critical skills would cost \$29 million in 2003 and \$19 million in 2004;
- Accession bonuses for new officers with critical skills would cost \$14 million in 2003 and \$5 million in 2004; and
- Authorities to make special payments and give bonuses to certain health care professionals would cost \$37 million in 2003 and \$34 million in 2004.

Most of these changes would result in additional, smaller costs in subsequent years because payments are made in installments.

Education and Training. Section 531 would allow the military services to increase the number of students at each of the service academies from the current ceiling of 4,000 to 4,400 students over a four-year period at a maximum rate of 100 students a year for academic years 2003-2004 through 2007-2008. Under this provision, the annual increase in service-academy students could not exceed the increase in the number of students in the Reserve Officer Training Corp (ROTC) for the previous academic year.

Based on information from DoD, CBO expects that only the Navy would increase its service-academy strength and that it would bring on about 50 extra academy students a year, as well as an additional 50 ROTC students, at an average annual cost of about \$34,000 per student. According to the Navy, these additional students would not be used to increase overall officer endstrength, but rather to offset a desired drawdown in the number of officers commissioned through the Officer Candidate School (OCS) program. Thus, the actual cost

of the increase for the academy and ROTC students would be offset somewhat by the cost of the OCS graduates they would replace. Because the OCS program lasts less than one year, the offsetting costs would not begin to affect net outlays until 2007, when the first of the additional academy and ROTC students would graduate and be commissioned. CBO estimates the cost of implementing this provision would be \$1 million in 2003 and \$31 million over the 2003-2007 period, assuming appropriation of the necessary amounts.

Section 651 would extend the period during which eligible reservists may use their education benefits from 10 years to 14 years. In 2001, over 82,000 reservists trained under this program and received an average annual benefit of \$1,653. These benefits are paid by the Secretary of Veterans Affairs from the DoD Education Benefits Fund. Each month, DoD pays into the fund the net present value of the education benefit granted to each person who enlisted in the previous month. Based on information from DoD about current contributions to the fund and expected accessions, CBO estimates section 651 would increase payments into the fund by about \$2 million each year. (CBO estimates that there also would be direct spending of about \$29 million over the 2003-2012 period for increased outlays from the fund. CBO's estimate of those costs is discussed below under the heading of "Direct Spending.")

Defense Health Program. Title VII contains several provisions that would affect DoD health care and benefits. Tricare is the name of DoD's health care program; Tricare Prime and Tricare Prime Remote are managed care programs, and Tricare Standard is a fee-for-service program.

Tricare Prime Remote. Section 702 would affect dependents of servicemembers on active duty who live in a remote area, which is defined as roughly a one-hour or more driving distance from a military treatment facility. Under certain conditions, this section would allow dependents of personnel on active duty who live in a remote area to participate in Tricare Prime Remote if the servicemember is transferred to a different duty station and is not allowed to bring his or her family. Section 702 also would allow the family members of reservists called to active duty to participate in the Tricare Prime Remote program if they live in a remote area. Under current law, dependents of personnel on active duty living in remote areas must reside with the active-duty member to participate in Tricare Prime Remote. If the active-duty servicemember is transferred to a duty station where he or she cannot bring family members, the family can no longer participate in the Tricare Prime Remote program. Families of reservists called to active duty also are not allowed to participate in this program.

Based on information provided by DoD, CBO estimates that about 36,000 dependents of personnel on active duty and about 50,000 dependents of reservists called to active duty would be affected by this provision. While CBO expects the number of family members of active-duty personnel to remain fairly constant, CBO assumes that the more than 80,000

reservists currently on active duty will decline to about 65,000 in 2003 and 10,000 by 2006. If the number of reservists called to active duty were to remain at current levels over the 2003-2007 period, then the estimated costs would be correspondingly higher.

According to DoD, about 40 percent of those dependents who would be eligible for Tricare Prime Remote under this section already participate in Tricare Standard. Based on data provided by the department, CBO estimates that the additional incremental cost of providing Tricare Prime Remote to those individuals would be \$113 per person. In addition, CBO estimates that the new benefit would attract about 4,300 dependents to Tricare Prime Remote who had not previously used any Tricare program at an estimated annual cost of \$1,900 per person. Thus, CBO estimates that the cost of providing Tricare Prime Remote to more individuals would be \$12 million in 2003 and \$47 million over the 2003-2007 period, assuming appropriation of the estimated amounts.

Transitional Health Care. Under section 706, family members of reservists who were called to active duty for more than 30 days would be eligible for health care coverage under Tricare for 60 days after the reservist is released from active duty. Under current law, only the reservist is eligible for health care coverage under Tricare for the 60 days after he or she is released from active duty. While there are currently more than 80,000 reservists on active duty, CBO assumes for this estimate that the number of reserves will fall to about 65,000 in 2003 and 10,000 by 2006. If the number of reservists remains at current levels over the 2003-2007 period, the estimated costs would be correspondingly higher.

Based on data from DoD and the General Accounting Office, CBO estimates that about 50 percent of the reservists have families and that about 40 percent of those families would use the transitional health care. CBO further estimates that providing an additional 60 days of health care coverage to those families would cost, on average, about \$600 per family. After accounting for inflation and the assumed decline in the level of reservists called to active duty, CBO estimates that this provision would cost \$7 million in 2003, and \$18 million over the 2003-2007 period, assuming appropriation of the estimated amounts.

National Guard Challenge Program. Section 513 would allow DoD to reimburse a state program of the National Guard Challenge Program for up to 75 percent of the cost of operating the state program in a fiscal year. If fully implemented, CBO estimates that implementing this provision would cost \$84 million over the 2003-2007 period. CBO estimates that raising the federal contribution to these programs to 75 percent would increase the annual federal cost for each participant by approximately \$2,500. Applying this annual cost to the 6,400 participants in the program would increase the cost by about \$17 million per year over the 2003-2007 period.

Asbestos Differential Pay. Under section 1103, federal wage-grade employees would be subject to the same standards as general schedule employees when determining eligibility for environmental differential pay (EDP), based on exposure to asbestos. Under current law, general schedule employees are entitled to 8 percent hazard differential pay if they are exposed to asbestos that exceeds the permissible exposure limits established by the Occupational Safety and Health Administration (OSHA). The current EDP standard for wage-grade employees entitles them to the same 8 percent of pay, but does not set an objective measure for determining the level of asbestos exposure necessary to qualify for EDP. In several instances where wage-grade employees have sought back pay for EDP, arbitrators found in favor of the employees when asbestos levels were below those consistent with OSHA standards. Based on information from DoD on prior and pending arbitration rulings, CBO expects that implementing section 1103 would reduce the amount of back pay federal agencies would be required to pay for EDP based on asbestos exposure. Assuming these cases would be handled administratively, CBO estimates establishing OSHA standards for asbestos EDP would save \$110 million in 2003 and \$550 million over the 2003-2007 period, assuming appropriations are reduced by the estimated amounts.

Federal Employees Health Benefits (FEHB) Program. Section 1104 would extend a provision of law into fiscal year 2007 that allows DoD and certain Department of Energy employees whose employment is terminated because of a reduction-in-force action to continue to participate in the FEHB health insurance program and only pay the regular employee's share of the insurance premium. The respective departments would be responsible for paying the normal employer's share of the premium. Under current law, this provision expires in fiscal year 2004. Based on information from DoD and the Office of Personnel Management, CBO estimates that this provision would affect about 500 people a year at an average annual cost of \$5,500 per person over the 2003-2007 period. CBO estimates that extending this provision into fiscal year 2007 would cost \$2 million in 2004, and \$11 million over the 2004-2007 period, assuming appropriation of the estimated amounts.

School Impact Aid. Section 366 would allow school districts with a large percentage of children from military families to continue to receive heavy impact aid when military families are temporarily relocated. Heavy impact aid is federal funding earmarked for school districts with large military populations. Many military families in those school districts live on federal installations and do not contribute to the local property tax base that is used to help finance school operations. Heavy impact aid helps to offset this loss of local tax revenue. Under current law, schools can only receive heavy impact aid if they meet strict criteria for numbers of federal students located in their districts, local tax rates, and per pupil expenditures. Because of population relocations associated with certain military housing initiatives, some school districts would temporarily be unable to meet these criteria and would lose their heavy impact aid for several years.

Based on data from the Department of Education and the Military Impacted Schools Association, CBO estimates that about four school districts would initially be affected by housing privatization and that these school districts receive about \$18 million in heavy impact aid annually. Because applications for heavy impact aid are based on school district statistics from three years prior, CBO estimates that the cost of implementing this section would not occur until 2006. After adjusting for the changes in student population within the affected districts, CBO estimates that restoration of this aid would cost about \$14 million per year. Since the requirements of the School Impact Aid program are not always fully funded, CBO expects that the Department of Education would likely fund this increase through reductions in aid to other school districts. CBO expects this cost would reoccur annually only for the duration of the privatization effort within the affected school districts, which CBO estimates to be about three years.

Military Housing Privatization Initiative (MHPI). Section 2801 would increase the value of budget authority that DoD can use to finance special authorities for the construction and renovation of military family housing and military unaccompanied housing. Those authorities allow DoD to use direct loans, loan guarantees, long-term leases, rental guarantees, barter, direct government investment, and other financial arrangements to encourage private-sector participation in building military housing. Funding for those activities comes from the Family Housing Improvement Fund which is financed by appropriations made to the fund, transfers from other accounts, receipts from property sales and rents, returns on any capital, and other income from operations or transactions connected with the program. Currently the amounts in the fund are available for use by DoD to acquire housing using the various techniques mentioned above, but the total value of budget authority for all contracts and investments undertaken is limited to \$1 billion (\$850 million for family housing and \$150 million for unaccompanied housing). Under the bill, those limits would be increased to \$2 billion (\$1.7 billion for family housing and \$300 million for unaccompanied housing).

To date, DoD has signed contracts for 16 family housing projects and is proceeding with solicitations for or considering plans for close to 60 other projects over the next few years. Based on how the Office of Management and Budget (OMB) has recorded obligations from DoD's use of this authority, DoD has only recorded obligations of about \$250 million—well below the current \$1 billion limit. Given DoD's plans for future projects, CBO estimates that the department will reach the current limit by the end of 2004. As a result, CBO estimates that raising the limit effectively authorizes additional appropriations beginning in 2005. Based on recent trends and DoD's current plans, CBO estimates these authorizations would total about \$80 million a year over the 2005-2007 period.

CBO, however, continues to believe that OMB's current accounting for MHPI initiatives is at odds with government-wide standards for recording obligations and outlays. Those standards call for different treatments depending on the character of the transaction. The OMB accounting treats certain initiatives primarily as credit and other transactions that have relatively little cost in terms of recorded obligations and outlays. In contrast, CBO considers many MHPI projects as having characteristics of lease-purchases or of public-private partnerships, both of which require the Administration to record higher levels of obligations and outlays. Currently the Administration's approach allows DoD to obligate significantly more federal resources than the existing \$1 billion limitation for such projects. Consequently, if the limitation is increased to \$2 billion, DoD would be allowed to obligate much more than that figure.

Government-Wide Accounting Principles. Some of the options available for use of the Family Housing Improvement Fund involve up-front commitments of government resources that would be spent over a long period of time. According to standard principles of federal accounting, obligations of the fund should reflect the full amount of the financial liability incurred when the government makes such a commitment. In the case of a long-term capital lease or rental guarantee, for example, obligations should equal the total amount of lease or rental payments over the life of the contract, and appropriations to cover the full amount of such obligations should be available before entering into the lease or guarantee. Some commitments could take the form of lease-purchases, which would require the recording of both obligations and outlays up front. Still others could be public-private partnerships formed to borrow private funds in order to construct housing on a military base; in those instances, obligations should equal the borrowing authority—a form of budget authority—used for that project. If direct loans are used to help finance an on-base project, the value of future appropriations that will be passed through to developers—by servicemembers who pay rent with their housing allowances—should be viewed as a subsidy, which would increase obligations.

In effect, the Administration's accounting is allowing DoD to record the costs of the projects incrementally over time rather than up front. CBO believes this is counter to the government-wide principles that require costs from such projects to be recorded up front in the budget. In future years, CBO's approach would reduce the amount of budget authority and outlays the Administration would need to record each year in the military personnel accounts—which fund housing allowances—since such costs would already be recorded.

CBO plans to consult with the Committee on the Budget in both the House and the Senate on how to score future legislation that expands or extends these authorities. Depending on the outcome of those consultations, CBO may score such future legislation as direct spending.

Matters Relating to Other Nations. Section 1204 would expand the list of countries eligible for loan financing under the defense export loan guarantee program to include countries combating drug trafficking organizations or combating foreign terrorist organizations, as determined by the Secretary of Defense and the Secretary of State. CBO estimates that implementing this provision would have no significant budgetary effect because CBO believes that the authority would not be used. The section would not authorize appropriations for the cost of any loan guarantees, as defined by the Federal Credit Reform Act. Without a subsidy appropriation, the borrowing country would be required to pay fees sufficient to cover the cost of the contingent liability of the United States under the guarantee plus administrative expenses. CBO estimates that the required fees would render the total cost of financing no more attractive to potential borrowers than financing without a government guarantee. CBO also estimates that the other limitations and authorizations provided in title 12 would have little effect on the spending of funds otherwise authorized to be appropriated.

Direct Spending

The bill contains provisions that would increase direct spending, primarily from the phase-in of concurrent payment of retirement annuities with veterans' disability compensation to retirees from the military and the other uniformed services who have service-connected disabilities rated at 60 percent or greater. The bill also contains a few provisions with small direct spending savings. On balance, CBO estimates that enacting H.R. 4546 would result in a net increase in direct spending totaling \$5.8 billion over the 2003-2007 period (see Table 4).

Concurrent Receipt. Section 641 would phase in over five years total or partial concurrent payment of retirement annuities together with veterans' disability compensation to retirees from the uniformed services who have service-connected disabilities rated at 60 percent or greater. The uniformed services include all branches of the U.S. military, the Coast Guard, and uniformed members of the Public Health Service (PHS) and the National Oceanic and Atmospheric Administration (NOAA).

Under current law, disabled veterans who are retired from the uniformed services cannot receive both full retirement annuities and disability compensation from the Department of Veterans Affairs (VA). Because of this prohibition on concurrent receipt, such veterans forgo a portion of their retirement annuity equal to the nontaxable veterans' benefit. This section would permit, beginning in 2007, individuals who have significant service-connected disabilities and have a retirement annuity based on years of service, to receive both benefits in full without the reduction called for under current law. Individuals whose retirement pay is based on their degree of disability would continue to forgo retirement pay equal to the VA

compensation payment, but only to the extent that their disability had entitled them to a larger retirement annuity than they would have received based on years of service.

TABLE 4. ESTIMATED DIRECT SPENDING FROM CONCURRENT RECEIPT AND OTHER PROVISIONS IN H.R. 4546

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING					
Section 641 - Concurrent Receipt					
Estimated Budget Authority	516	643	1,029	1,608	2,006
Estimated Outlays	516	643	1,029	1,608	2,006
Section 362 - Armed Forces					
Retirement Home Fee					
Estimated Budget Authority	-7	-7	-7	-7	-7
Estimated Outlays	-7	-7	-7	-7	-7
Section 643 - Cost-of-Living					
Adjustment (COLA) Inversion					
Estimated Budget Authority	-3	-3	-4	-4	-4
Estimated Outlays	-3	-3	-4	-4	-4
Section 644 - Forgotten Widows					
Estimated Budget Authority	-1	-1	-1	-1	-1
Estimated Outlays	-1	-1	-1	-1	-1
Section 651 - Education Benefits for					
Selected Reserves					
Estimated Budget Authority	4	4	3	2	2
Estimated Outlays	4	4	3	2	2
Section 701 - Mental Health Benefits					
Estimated Budget Authority	0	1	1	1	1
Estimated Outlays	0	1	1	1	1
TOTAL CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	509	637	1,021	1,599	1,997
Estimated Outlays	509	637	1,021	1,599	1,997

This section also would repeal a program that partially compensates certain severely disabled retirees for this reduction in their retirement annuities. This program currently pays a fixed benefit of \$50 to \$300 a month, depending on degree of disability. Taken together, CBO estimates that implementing section 641 would increase direct spending for retirement annuities and veterans' disability compensation by a net amount of about \$516 million in 2003, \$5.8 billion over the 2003-2007 period, and \$17.8 billion over the 2003-2012 period (see Table 5).

TABLE 5. ESTIMATED CHANGES IN RETIREE BENEFITS UNDER H.R. 4546

Description of Benefits Program	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Retirement Annuities					
Nondisability	490	591	887	1,370	1,744
Disability	83	97	135	194	234
Veterans Compensation Payments	0	13	67	104	89
Survivor Benefit Plan Payments	8	8	8	9	9
Special Compensation for Severely Disabled	<u>-65</u>	<u>-66</u>	<u>-68</u>	<u>-69</u>	<u>-70</u>
Total Changes in Retiree Benefits	516	643	1,029	1,608	2,006

Retirement Annuities. Since the proposed legislation would treat retirees differently based on their type of retirement—nondisability or disability, the potential costs of the legislation depend on the number of beneficiaries, their type of retirement, their disability levels, and their benefit amounts.

Nondisability Retirees. A nondisability retirement is granted based on length of service—usually 20 or more years. Section 641 would allow those longevity retirees whose degree of disability has been rated as 60 percent or greater to receive full retirement annuities and veterans' disability benefits with no offset in 2007, and to receive an increasing portion of their retirement annuities over the 2003-2006 period. Data from the uniformed services indicate that in 2001 the prohibition on paying both benefits concurrently caused about \$1.3 billion to be withheld from the annuity payments of about 74,000 eligible DoD retirees with nondisability retirements, and about 900 eligible Coast Guard, PHS, and NOAA retirees. Using current rates of net growth in the population of new beneficiaries, CBO estimates this caseload would rise to about 78,000 nondisability retirees in 2003, and 96,000 nondisability retirees by 2012. CBO assumes that future benefit payments will increase consistent with current rates of growth in average disability levels and also increase from cost-of-living adjustments. After phasing the benefits in over five years as specified in the provision, CBO estimates that enacting the legislation would increase direct spending on retirement annuities for nondisability retirees of the uniformed services by \$490 million in 2003, \$5.1 billion over the 2003-2007 period, and \$15.6 billion over the 2003-2012 period.

Disability Retirees. Servicemembers who are found to be unable to perform their duties because of service-related disabilities may be granted a disability retirement. Section 641 would allow eligible disability retirees to receive retirement annuities based on their years of service and veterans' disability benefits with no offset in 2007, and partial concurrent receipt of these payments in 2003 through 2006. Disability retirees would be eligible to obtain concurrent receipt of their retirement annuity and veterans' disability compensation if they served 20 or more years in the uniformed services and had a disability rating of 60 percent or greater.

Data from the uniformed services indicate that in 2001, the prohibition on paying both benefits concurrently caused about \$200 million to be withheld from annuity payments of about 11,400 eligible DoD retirees with disability retirements, and about 500 eligible Coast Guard, PHS, and NOAA retirees. An analysis of retiree records by DoD indicates that, under the criteria set forth in this section, these retirees would be eligible to receive about 95 percent of their retirement annuity concurrently with their VA disability benefit. Assuming continuation of current trends in population and benefit growth, and phasing the benefit in over five years as specified in this section, CBO estimates that, of the disability retirees who would be receiving VA disability benefits in fiscal year 2003, about 12,100 would be entitled to an additional \$83 million in retirement annuities. CBO estimates their retirement annuities would increase by \$743 million over the 2003-2007 period and \$2 billion over the 2003-2012 period.

Other Effects of Concurrent Receipt. Enacting section 641 also would affect Veterans' Disability Compensation, receipts to the Treasury for Survivor Benefit Payments, Special Compensation to Severely Disabled Retirees, and the level of contributions to the Military Retirement Trust Fund.

Veterans' Disability Compensation. Data from DoD indicates that an additional 15,100 disability retirees of the uniformed services—14,500 from DoD and about 600 from the other uniformed services—do not currently receive VA disability benefits that they are entitled to receive. Since many disability retirees are not taxed on their annuities, there is no incentive under current law for these retirees to apply for the tax-free VA benefits, as they will be offset, dollar-for-dollar, against their retirement annuities. Section 641 would provide a significant incentive for the more disabled of these individuals to apply for VA disability benefits. CBO estimates that about 7,000 disability retirees might be eligible for concurrent receipt under section 641, but, because many of these retirees are both disabled and quite elderly, CBO expects that only about half of that number would become aware of this improved benefit and successfully complete the application process. Based on their DoD-assessed degree of disability, CBO estimates that outlays for VA disability benefits would increase by \$13 million in 2004, about \$270 million over the 2003-2007 period, and \$760 million over the 2003-2012 period. Because of the time needed for individuals to

prepare and submit their applications and the current backlog in processing applications, CBO estimates that enacting this legislation would not increase outlays for veterans' disability compensation in 2003.

Survivor Benefit Plan Offsetting Receipts. Many retirees have a Survivor Benefit Plan (SBP) premium payment deducted from their retirement annuity. The SBP was established in Public Law 92-425 to create an opportunity for military retirees to provide annuities for their survivors. Those retirees who are not receiving a paycheck from DoD because their retirement annuity is totally offset by their VA disability benefit may still participate in the SBP by paying the monthly premium to the U.S. Treasury. These payments are recorded as offsetting receipts to DoD. According to DoD, approximately 34,000 military retirees paid \$23 million in SBP premiums to the Treasury in 2001. DoD also indicates that about \$7 million of that amount was paid by about 8,000 retirees who would begin to receive annuity checks under section 641. CBO's estimate of the increase in retirement outlays presented above assumes that the SBP premiums of retirees who benefit from the legislation would be deducted from the retirees' annuities, and their payments to the Treasury would cease. Assuming continuation of current trends in population and benefit growth, CBO estimates these offsetting receipts (a credit against direct spending) would decrease by about \$8 million in 2003, \$40 million over the 2003-2007 period, and \$90 million over the 2003-2012 period.

Repeal of Special Compensation for Severely Disabled Retirees. Section 641 also would repeal a special compensation program that currently pays a fixed benefit of \$50 to \$300 a month to certain uniformed service retirees who were determined to be 60 percent to 100 percent disabled within four years of their retirement. Based on information from DoD and assuming the population growth trends continue, CBO estimates that about 36,000 DoD retirees and about 600 retirees of the other uniformed services will receive an average monthly benefit of \$150 in 2002. Under current law, this benefit is scheduled to increase over the next two years to \$172 a month. CBO estimates that the savings from repealing this program would be \$65 million in 2003, \$338 million over the 2003-2007 period, and \$706 million over the 2003-2012 period.

Increased Accrual Payment Financing. The military retirement system is financed in part by an annual payment from appropriated funds (an outlay in budget function 050) to the Military Retirement Fund, based on an estimate of the system's accruing liabilities. If this provision is enacted, the yearly contribution to the fund would increase to reflect the added liability from the expected increase in annuities to future retirees. Under section 641, however, this incremental increase in the accrual payment would be paid to the Military Retirement Fund by the Secretary of the Treasury from the general fund of the Treasury. Using information from DoD, CBO estimates that the accrual payment from the Treasury would be \$569 million in 2003, and about \$3 billion over the 2003-2007 period.

Armed Forces Retirement Home Fee. Section 362 would increase the fee that certain military personnel pay toward the operation of the Armed Forces Retirement Home. Currently, these personnel—which include active-duty enlisted personnel, warrant officers, and limited-duty officers—are required to pay a fee of 50 cents per month, which is used to offset the costs of operating the retirement home. Section 362 would set the fee at \$1.00 per month. Based on information provided by the Department of Defense, CBO estimates this provision would increase offsetting receipts (a credit against direct spending) by \$7 million per year.

Cost-of-Living-Adjustment (COLA) Inversion. Under current law, the annual COLA for military retirement annuities, which takes effect every December, is calculated based on the amount of the increase in the consumer price index (CPI) over the course of the previous fiscal year. Members of the uniformed services who are newly retired are credited with only a partial-year COLA the first December of their retirement. The size of this partial-year COLA depends on when during the year they retired, and their retirement plan. Because the CPI declined during the fourth quarter of 2001, retirees whose “COLA clock” started counting during that period of deflation will receive a larger COLA than those retirees whose COLA is calculated from the previous, higher-growth quarter. Section 643 would prevent this “COLA inversion” by capping retirees’ initial COLAs at the level of the full-year COLA received by the rest of the retiree population.

Based on data from DoD, CBO estimates that enacting this legislation would reduce the COLA adjustment of about 43,000 servicemen who retire during fiscal year 2002 by less than half a percentage point. CBO estimates that the retirement annuities they would otherwise receive in 2003 would be reduced by a total of about \$3 million. This reduction in annuities would increase over time by the amount of future COLA increases that would otherwise have applied to the original \$3 million. CBO estimates section 643 would reduce retiree annuities by about \$18 million over the 2003-2007 period and by \$38 million over the 2003-2012 period.

Forgotten Widows. Section 644 would modify a program to compensate surviving spouses of certain active-duty servicemembers and reservists who died before they were able to enroll in the Survivor Benefit Plan. This program, which began in December 1997, is currently providing a monthly annuity of \$186 to over 2,500 beneficiaries. Under current law, benefits are retroactive to the inception of the program. CBO estimates that a survivor enrolling in the program in 2003 would receive, in addition to the monthly annuity, a lump-sum payment of over \$11,000 and that by 2012, the lump-sum payment would increase to almost \$32,000. Section 644 would eliminate the retroactive portion of the benefit, so that survivors who enroll in the program after enactment of this legislation would receive the annuity, but not the lump-sum payment. Data from DoD indicates that the eligible population is elderly, and the recent growth rate has been limited to between 100 and 150 surviving spouses a year.

Without the lump-sum payment incentive, CBO assumes even fewer new enrollees would seek to become eligible each year. CBO estimates eliminating the lump-sum payment would save about \$9 million over the 2003-2012 period.

Education Benefits for the Selected Reserve. Section 651 would extend the period during which eligible reservists may use their education benefits from 10 years to 14 years. VA reported that, in 2001, over 82,000 reservists trained under this program and received an average annual benefit of \$1,653. This average benefit includes both the basic benefit and a supplemental benefit that DoD can offer to enhance accessions or re-enlistment in critical skill specialties. This benefit increases each year by a COLA and by the level of supplemental benefits being offered. Based on current usage rates, CBO estimates that enacting this extension would result in an extra 2,500 trainees in fiscal year 2003 and a somewhat smaller number of additional trainees in subsequent years. The number of trainees will be larger in the first several years because reservists who are currently excluded from using their benefits because they have exceeded the 10-year limit would be expected to use the newly available benefit more intensively. Based on information from DoD and VA, CBO estimates that enacting this legislation would increase education outlays by \$4 million in 2003, \$15 million over the 2003-2007 period and by \$29 million over the 2003-2012 period. Since DoD makes monthly payments into the DoD Education Benefits Fund in the amount of the net present value of the benefits granted during the previous month, this increase in usage of the education benefit would necessitate an increase in payments to the fund. (The discretionary costs associated with these payments are discussed earlier in the “Spending Subject to Appropriation” section under the heading of “Education and Training.”)

Mental Health Benefits. Section 701 would remove a statutory requirement that inpatient mental health care be preauthorized for retirees and dependents who are eligible for Medicare beginning in 2004. Under current law, Tricare for Life (TFL), another medical program run by DoD, pays all Medicare copayments and deductibles for those benefits that are covered by both programs. Beginning in 2003, TFL spending for Medicare-eligible retirees and dependents will be considered direct spending. Under current law, Medicare does not require a preauthorization for inpatient mental health care but Tricare does. Removing this requirement would make the mental health benefits identical and reduce confusion among beneficiaries and health care providers.

Although most individuals would seek preauthorization before receiving inpatient mental health care, CBO expects that, under current law, some individuals would fail to obtain the necessary preauthorization from Tricare and would have to pay the copayments and deductibles on their own. Because DoD does not have any available data on the frequency or costs of inpatient mental health care for Medicare-eligible retirees and dependents, CBO extrapolated this data from the general Medicare population. Under section 701, CBO estimates that in 2004 TFL would cover the copayments and deductibles for about 600

additional people at an average cost of about \$1,800 per person. Thus, CBO estimates section 701 would raise direct spending by \$1 million in 2004, \$4 million over the 2004-2007 period, and \$14 million over the 2004-2012 period.

Land Conveyance and Other Property Transactions. Titles XXVIII and XIV would authorize a variety of property transactions involving both large and small parcels of land.

Section 2841 would authorize the Secretary of the Interior to convey to the city of West Wendover, Nevada, and Tooele County, Utah, without consideration, two parcels of federal land located in those states and identified in the bill. According to the Bureau of Land Management (BLM), those lands, which are withdrawn for military purposes, currently generate no offsetting receipts and are not expected to in the foreseeable future. Hence, CBO estimates that conveying the lands would not affect offsetting receipts. According to the U.S. Air Force, portions of the lands that could be conveyed have been used as a bombing range by the Air Force. Under the Comprehensive Environmental Response, Compensation, and Liability Act, the agency would have to remediate any expended and unexploded ordnance prior to conveying those lands. Any federal spending for remediation, which could be significant, would be subject to appropriation. At this time, CBO does not have sufficient information to estimate remediation costs.

CBO estimates that other provisions in title XXVIII would not result in significant costs to the federal government because they would either authorize DoD to exchange one piece of property for another or would authorize DoD to convey land that under current law is unlikely to be declared excess and sold or is likely to be given away.

Title XIV of H.R. 4546 would designate as wilderness more than 539,000 acres of federal lands throughout the state of Utah. Subject to valid existing rights, the bill would withdraw most of those lands from programs to develop mineral and geothermal resources. Withdrawing those lands from leasing and development could result in forgone offsetting receipts if, under current law, the lands would generate receipts from those activities. According to BLM, however, the lands currently generate no significant receipts and are not expected to over the next 10 years. Hence, we estimate that any resulting changes in offsetting receipts would be negligible.

Title XIV also would prohibit the Secretary of the Interior from issuing permits for rights-of-way through certain federal lands in Utah. According to BLM, the agency collects less than \$100,000 a year from such permits; hence, CBO estimates that any resulting loss of offsetting receipts (a credit against direct spending) would not exceed that amount in any year.

Other Provisions. The following provisions would have an insignificant budgetary impact on direct spending:

- Section 364 would extend the arsenal support program initiative (ASPI) through 2004. ASPI allows government owned and operated arsenals to sign contracts with private companies for the use of excess plant space and equipment. The arsenal can then use the rents and fees from these contracts to reduce overhead costs. To date, these contracts have generated less than \$500,000 a year in proceeds.
- Section 366 would allow the basic allowance for housing (BAH) for service members who live in privatized housing to be disregarded as income when determining eligibility for free and reduced meals in the school lunch program. Under current law, the BAH is counted as income. The provision would allow more children to be eligible for free and reduced price meals for the one year period after enactment. CBO estimates that this section would increase direct spending in the child nutrition program in 2003, but that the costs would not be significant. (If this bill is enacted before the start of fiscal year 2003, then there would be some insignificant cost in 2002 also.)
- Section 2862 would allow the Navy to provide wastewater treatment services from its facilities at Camp Lejeune, North Carolina, to Onslow County and other public entities near the base. In exchange for those services, the Navy would receive cash or in-kind payment. This provision would have no net impact on direct spending because it would allow the Navy to spend any cash that it collects.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending that are subject to pay-as-you-go procedures are shown in Table 6. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

TABLE 6. ESTIMATED IMPACT OF H.R. 4546 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	509	637	1,021	1,599	1,997	2,123	2,256	2,386	2,524	2,672
Changes in receipts						Not applicable					

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4546 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs:

- Defense Outlays: Kent Christensen
- Military Construction: David Newman
- Military and Civilian Personnel: Michelle Patterson and Dawn Regan
- Armed Forces Retirement Home: Geoffrey Gerhardt
- Military Retirement: Sarah Jennings
- Health Programs: Sam Papenfuss
- Multiyear Procurement: David Newman and Raymond Hall
- Conservation and Land Management: Megan Carroll
- Maritime Administration: Deborah Reis
- Naval Petroleum Reserves: Lisa Cash Driskill
- Nutrition Programs: Valerie Womer
- Operation and Maintenance: Matt Schmit

Impact on State, Local, and Tribal Governments: Elyse Goldman

Impact on the Private Sector: R. William Thomas

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